



USDA Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Template Version 2.09

Voluntary Report - public distribution

Date: 2/7/2006

GAIN Report Number: BR6604

Brazil

Oilseeds and Products

Soybean Update

February 2006

Approved by:

Alan D. Hrapsky, Agricultural Counselor
U.S. Embassy

Prepared by:

Elizabeth Mello, Agricultural Attaché

Report Highlights:

The 2005/06 soybean harvest has commenced, and farmers in northern Mato Grosso have kicked off the five-month process of harvesting soybeans in Brazil. Early harvest figures show positive yields, and weather remains in farmers' favor with only minor losses due to drought earlier in the season. Soybean rust is more severe than last crop year but better managed, and losses due to the disease should be minimal. Soybean prices remain discouraging for farmers, and credit remains tight. Production remains forecast at 61 MMT on an area of 21.9 million hectares.

Includes PSD Changes: No
Includes Trade Matrix: No
Unscheduled Report
Brasilia [BR1]
[BR]

Brazil						
Oilseed, Soybean (Local)						
1000 HA and 1000 Tons						
	2003	Revised	2004	Estimate	2005	Forecast
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
Market Year Begin		02/2004		02/2005		02/2006
Area Planted	21475	21436	22800	22800	23000	21900
Area Harvested	21475	21400	22800	22800	23000	21900
Beginning Stocks	3129	3090	2086	2219	1058	1099
Production	50500	50500	51000	51000	62000	61000
MY Imports	350	350	470	400	200	200
MY Imp. from U.S.	0	0	0	0	0	0
MY Imp. from the EC	0	0	0	0	0	0
TOTAL SUPPLY	53979	53940	53556	53619	63258	62299
MY Exports	19571	19571	19542	19500	22936	24000
MY Exp. to the EC	10200	10720	10700	11000	0	13000
Crush Dom. Consumption	29172	29000	29634	29500	32309	32500
Food Use Dom. Consump.	0	0	0	700	0	750
Feed,Seed,Waste Dm.Cn.	3150	3150	3322	2820	3575	3000
TOTAL Dom. Consumption	32322	32150	32956	33020	35884	36250
Ending Stocks	2086	2219	1058	1099	4438	2049
TOTAL DISTRIBUTION	53979	53940	53556	53619	63258	62299

Production

Soybean production remains forecast at 61 MMT with an expected yield of 2.8 tons per hectare. The 2005/06 soybean harvest has commenced, and farmers in northern Mato Grosso have kicked off the five-month process of harvesting soybeans in Brazil. Post paid a recent visit to areas being harvested in Mato Grosso, and found the condition of the crop to be very good, with impressive early-season yields averaging 3.2 tons per hectare. It will be necessary for farmers to produce better-than-average yields this year in order to make a profit, due to low soybean prices and a strong Real vis-à-vis the Dollar. The latest (February 6) forecast by the Brazilian authority on crop production estimates (Conab) is 58.2 MMT.

Thanks to the new biosafety law, soybeans in Brazil have experienced their highest increase in planted area of biotech seed thus far. All available biotech seed was planted this year, and seed companies, government research facilities (aka Embrapa), and even producers are stretching unsuccessfully to meet the demand of farmers for roundup ready seed. The Brazilian seed association reports that 9 million hectares were planted with biotech seed; about 2.5 million being legal seed and the rest illegal "brown bag" seed. This illegal seed often produces a mediocre yield since it often comes from different climatic areas than where it is planted.

Area

Due to continual problems with drought, planted area in the South decreased 390,000 hectares this crop year. However, the Center-west is responsible for the largest area decline (606,000 hectares) and about half of the 4% drop in area for Brazil.

The one region with continued soy expansion this year is the Northeast. The states of Maranhão and Piauí both increased in area 5% over last crop year. These states are at the cutting edge of expansion in Brazil due to lower land costs and 20-30% cheaper transportation compared to the South.

Economic Issues Affecting the Ag Sector

In late December the Central Bank released its expectation of a lower basic interest rate of by the end of 2006. Interest rates are currently very high, making credit tight for the ag sector. The exchange rate of the Real versus the Dollar in 2006 is projected at 2.34. If central bank projections are accurate, Brazilian soybean exports will get a boost this year.

The more likely scenario for the current time is a lower exchange rate. In this case, farmers with average yields are still expected to make a small profit. It is important to note that this year, farmers bought inputs at a time when the exchange rate was about 2.30, so selling their beans at a rate of 2.20 means even less profitability.

Exports- Higher Than Expected

For marketing year (MY-Feb 05-Jan 06) soybean exports will reach 22.1 MMT, according to ABIOVE, the Brazilian Association of Veg Oils. The 2005 calendar year numbers wrapped up at 22.4 MMT, 17% over 2004. MY soy meal and oil exports totaled 14 MMT and 2.8 MMT, respectively, which were greater than expectations but inferior to last year's numbers.

Higher bean exports can be attributed to stronger December CBOT prices and an improving exchange rate of the Brazilian Real with the Dollar. This combination has also influenced sales of this year's crop (new crop soybeans), already being harvested in portions of the Center West, which totaled 2.8 MMT through the end of 2005, versus 1 MMT of new soy sold through December of the previous year. Brazil's export window has expanded substantially in the past year, which explains the sluggishness of U.S. export activity so far this year.

Current higher stocks are also influencing the upswing in export activity. Producers have been especially slow to sell, even when prices picked up over the year (see BR5633), and mainly began to sell again in November when they needed to buy inputs. Finally, greater demand from China and the EU played a role in the higher export numbers.

Soy Rust

In mid-January, the Government of Brazil provided \$200 million Reals for emergency loans for rust prevention and control. This is an indication of the growing seriousness of soybean rust this year. Rust appeared a month earlier than last year and is spreading at a faster rate due to wetter conditions, which encourages its spread. Last year's dryer, drought-like conditions prevented the spread of rust. In the case of Mato Grosso, strong west winds have also helped to disseminate the rust spores.

At this point, Mato Grosso do Sul has the most problems and 118 of the total 618 cases in Brazil. In most states, rust has advanced at a more rapid pace than last year, and it should be expected that rust losses would be more on par with 2003/04 levels.

Although rust is more predominant this year than last year, it is clear that farmers are managing the disease better and losses will not be greater than last year. Fungicide use has reportedly increased slightly overall, with some regions buying more and some actually buying less. Total fungicide purchases for the season are estimated to be 6.2 million liters, which will match the total used two years ago for the 2004 crop.

The difference this year, according to farmers in Mato Grosso, is that instead of applying fungicide twice, farmers are applying fungicide three times. Those who apply twice spend about \$50 per hectare, or 90 cents for each 60-kilo bag of soybeans. Three applications bring the cost up to \$75 per hectare or \$1.30 for each bag of soybeans, for which farmers in the area are currently selling at \$7.80 a bag. Three chemical applications can also negatively affect yields by burning the leaves. According to the Mato Grosso Foundation, the average number of sprays for farmers in Mato Grosso, the largest soy-producing state, is 2.5.

Credit

From July-December 2005, the Bank of Brazil made available \$18 billion Reals for the 2005/06 harvest, and in January set aside R\$2 billion more to be used for input purchases. The Ag sector is in need of more financial resources for marketing the current crop, and whether this money will be made available is yet to be determined.

Ag sector representatives led by Governor Blairo Maggi met with Ag Minister Rodrigues and the Bank of Brazil to see about renegotiating the current farm debt. Over 27% of total rural credit loans were defaulted on in 2005, while only 1% were unpaid in previous years. The Mato Grosso Ag Econ Institute estimates that debts expiring in 2005 will reach 700 million Reals (over 300 million Dollars).

Harvest Progress

Although farmers in Mato Grosso began harvesting 7-14 days late due to late rains at planting time, the early harvest advances without any major hindrance and is about 10% complete. The harvest gains its main momentum in March and April, when the bulk of soybeans in Brazil are harvested.